



FEDERAL DEPOSIT INSURANCE CORPORATION

Federal Deposit Insurance Corporation Restoration Plan

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Notice of establishment of restoration plan.

Extraordinary growth in insured deposits during the first and second quarters of 2020 caused the Deposit Insurance Fund (the DIF or the fund) reserve ratio to decline below the statutory minimum of 1.35 percent.¹ As of June 30, 2020, the reserve ratio had fallen below the statutory minimum and stood at 1.30 percent, 9 basis points below the reserve ratio as of March 31, 2020, and 11 basis points below its recent peak of 1.41 percent as of December 31, 2019. Prior to 2020, the DIF reserve ratio had not decreased since the fourth quarter of 2009.

The Federal Deposit Insurance Act (the FDI Act) requires that the FDIC's Board of Directors (Board) adopt a restoration plan when the DIF reserve ratio falls below 1.35 percent or is expected to within 6 months.² Under the FDI Act, the restoration plan must restore the reserve ratio to at least 1.35 percent within 8 years of establishing the Plan, absent extraordinary circumstances.³

Therefore, pursuant to section 7(b)(3)(E) (12 U.S.C. 1817(b)(3)(E)), the FDIC established the following Restoration Plan (or the Plan) on September 15, 2020.

¹ The reserve ratio is calculated as the ratio of the net worth of the Deposit Insurance Fund (fund balance) to the value of the aggregate estimated insured deposits at the end of a given quarter. *See* 12 U.S.C. 1813(y)(3).

² 12 U.S.C. 1817(b)(3)(E)(i).

³ 12 U.S.C. 1817(b)(3)(E)(ii).

1. The FDIC will monitor deposit balance trends, potential losses, and other factors that affect the reserve ratio.
2. The FDIC will maintain the current schedule of assessment rates for all insured depository institutions (IDIs).
3. At least semiannually, the FDIC will update its analysis and projections for the fund and, if necessary, recommend any modifications to the Plan, such as increasing assessment rates.

While subject to considerable uncertainty, based on a range of reasonable (though highly uncertain) estimates of future losses and assuming a return to normal insured deposit growth, the reserve ratio would return to 1.35 percent without further action by the FDIC before the end of the 8-year period beginning upon the implementation of the Plan, as required by law.

Detailed Analysis and Basis for Actions Taken by the Restoration Plan

The FDI Act requires that the FDIC publish in the *Federal Register* a detailed analysis of the factors considered and the basis for the actions taken with regard to the Restoration Plan.⁴ The following summarizes the analysis the FDIC conducted that formed the basis of the Restoration Plan.

Source of Decline in Reserve Ratio

The decline in the reserve ratio during the first half of 2020 was solely a result of extraordinary insured deposit growth. Table 1 shows the components of the reserve ratio

⁴ 12 U.S.C. 1817(b)(3)(E)(v).

for the last quarter of 2019 and the first two quarters of 2020. Over this period, the DIF balance grew and did not experience material losses. As of June 30, 2020, the DIF balance totaled a record \$114.7 billion, up \$4.3 billion from the end of 2019. Meanwhile, insured deposits grew by an estimated \$1 trillion, resulting in an 11 basis point decline in the reserve ratio from the end of 2019.

Table 1—Fund Balance, Estimated Insured Deposits, and Reserve Ratio

	[\$ in Billions]		
	4 th Qtr 2019	1 st Qtr 2020	2 nd Qtr 2020
Beginning Fund Balance	108.9	110.3	113.2
Plus: Net Assessment Revenue	1.3	1.4	1.8
Plus: Investment Income ^a	0.5	2.0	0.1
Less: Loss Provisions	-0.1	*	*
Less: Operating Expenses	0.5	0.5	0.5
Ending Fund Balance ^b	110.3	113.2	114.7
Estimated Insured Deposits	7,815.2	8,164.2	8,837.3
Ending Reserve Ratio	1.41%	1.39%	1.30%

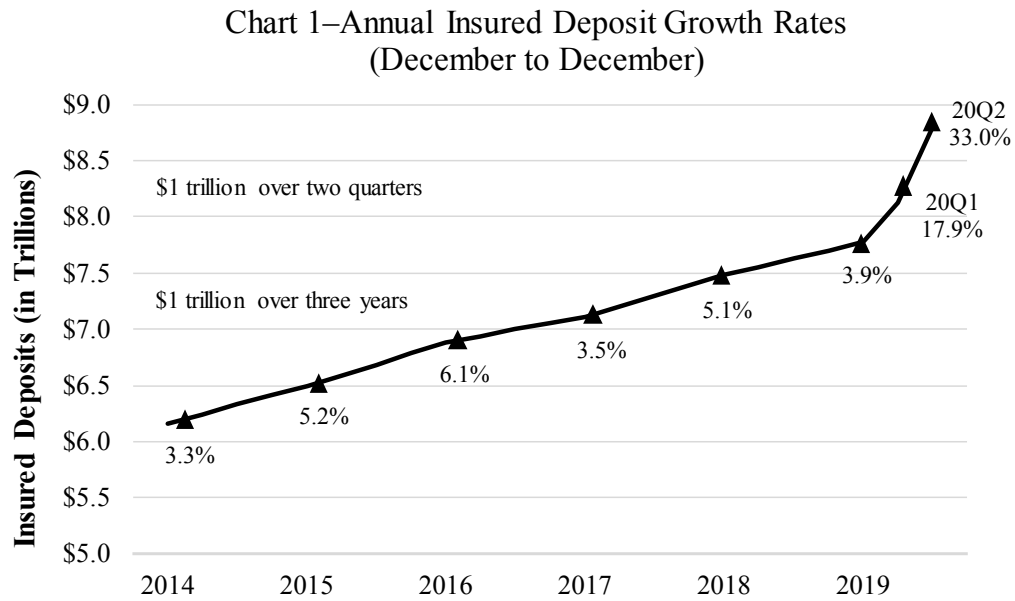
* = Less than \$50 million

^a Includes unrealized gains/losses on available-for-sale securities.

^b Components of fund balance changes may not sum to totals due to rounding.

The extraordinary growth in insured deposits during the first half of 2020 was also unprecedented. As described in more detail below, this increase largely stemmed from actions undertaken by depositors, both businesses and individuals, as well as government policy actions in response to the Coronavirus 2019 (COVID-19) pandemic. During the first half of 2020, estimated insured deposits grew by 4.5 percent (17.9 percent, annualized) in the first quarter and by 8.2 percent (33.0 percent, annualized) in the second quarter—two of the highest growth rates since quarterly reporting began in 1991.⁵ Together, estimated insured deposits grew by an amount equal to approximately three years of insured deposit growth in the first two quarters of 2020 (Chart 1).

⁵ The growth in estimated insured deposits experienced during the first and second quarters of 2020 was surpassed only by quarters in which the growth rate was substantially impacted by a temporary increase in



As of June 30, 2020, the unprecedented rate of insured deposit growth stemming from the pandemic had reduced the reserve ratio to below the statutory minimum of 1.35 percent.

Factors that affect the ability of the reserve ratio to return to 1.35 percent

Deposit balance trends, potential losses, and other factors will affect the ability of the reserve ratio to return to 1.35 percent within 8 years of implementing the Restoration Plan. To determine whether the reserve ratio has reached the statutory minimum, the FDIC will rely on the reserve ratio as of September 30, 2028.⁶ Under the Plan, the FDIC will closely monitor the factors affecting the reserve ratio and, as they become clearer, will update the Plan, as necessary, to reflect any updated assumptions.

coverage for noninterest-bearing transaction accounts or a permanent increase in the standard maximum deposit insurance amount from \$100,000 to \$250,000, including specifically only the fourth quarter of 2010, the third quarter of 2009, and the fourth quarter of 2008.

⁶ The reserve ratio is based on total estimated insured deposits at the end of a given quarter. The FDIC will rely on the reserve ratio as of September 30, 2028, the first quarter-end date for which the reserve ratio will be known after September 15, 2028, the end date of the 8-year period.

Deposit Balance Trends

The extraordinary growth in insured deposits during the first and second quarters of 2020 is largely a result of actions taken by monetary and fiscal authorities, and by individuals, businesses, and financial market participants in response to the COVID-19 pandemic. Deposit growth initially intensified in March upon the outbreak of the COVID-19 pandemic. As COVID-19 infections spread throughout the United States, individual states or major metropolitan areas ordered millions of Americans to stay home, severely reducing their ability to engage in usual commerce and forcing many businesses to close temporarily or furlough employees. Faced with economic disruption and uncertainty, businesses drew on their lines of credit and conserved cash, increasing deposits. Market volatility pushed investors to safer assets, including cash and insured deposits. Beginning in March, the Board of Governors of the Federal Reserve System (Federal Reserve) announced a series of emergency actions, including large-scale asset purchases and emergency lending facilities, which rapidly expanded its balance sheet by more than \$1 trillion and, with it, grew IDI reserve balances and deposits.

As deposit growth associated with a flight to safety began to stabilize, fiscal stimulus and reduced spending applied additional upward pressure on deposit growth. As part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the U.S. government provided over \$1 trillion in direct support to consumers and businesses through business loans, expanded unemployment insurance, and one-time checks to individuals.⁷ Lending to small businesses resulted in an increase in deposits. For

⁷ The CARES Act established the Paycheck Protection Program, which facilitated credit to small businesses through loans backed by the full faith and credit of the U.S. Government. The CARES Act also

individuals, the resulting surge in personal incomes from direct government assistance, combined with the dramatic reduction in discretionary spending, fueled deposit growth and lifted the personal savings rate to a record high of 33.7 percent in April. The personal savings rate remained elevated through July at 17.8 percent, and monthly savings more than doubled to \$280 billion in June from \$116 billion in February, or \$3.4 trillion compared to \$1.4 trillion on an annualized basis.

Insured deposit growth rates are expected to decline compared to rates experienced during the first two quarters of 2020. During the third quarter of 2020 to the week ending August 19, 2020, estimated domestic deposits (including both insured and uninsured deposits) for all domestically chartered commercial banks declined by 0.7 percent.⁸ In the near term, low interest rates and reduced fiscal support in the face of weak economic conditions, including weak labor markets, incomes, and reduced consumer spending may place downward pressure on deposit growth as depositors draw down savings. Even as economic conditions improve, deposits may decline as the precautionary behavior exhibited by depositors subsides and individuals and businesses redirect deposits toward consumption and higher-yielding investments.

While insured deposit growth rates are expected to decline, deposit balances, including insured deposits, could remain elevated until the factors that supported their recent growth decline from their current levels, particularly monetary and fiscal policy

provided Economic Impact Payments of up to \$1,200 per adult and \$500 per child, based on income, and expanded the amount of and eligibility for unemployment benefits. *See* Pub. L. 116–136 (Mar. 27, 2020).
⁸ Percent change for estimated weekly aggregate domestic deposits, which includes insured and uninsured deposits, at domestically chartered commercial banks only. This statistic is based on data that are reported weekly by a sample of banks and does not include deposits at other IDIs, including savings institutions. Federal Reserve, H.8 Data Release, Assets and Liabilities of Commercial Banks in the United States, data as of August 19, 2020, available at <https://www.federalreserve.gov/releases/h8/current/default.htm>.

and economic uncertainty. The Federal Reserve has indicated that it will continue to provide monetary policy support in the near-term with a continuation of asset purchases. In the medium- to long-term, if the Federal Reserve implements a gradual approach to unwinding monetary policy, as it did in the post-2008 period, reserves may remain elevated for years, even after economic conditions improve. The impact on deposits of a prolonged period of economic weakness is difficult to predict, but it is possible deposits may remain elevated if businesses and consumers continue to hold back spending under such a scenario. Under the Restoration Plan, the FDIC will monitor these deposit balance trends and their impact on the ability of the reserve ratio to return to 1.35 percent within 8 years of establishing the Plan.

Potential Losses

Losses from past and future bank failures affect the reserve ratio by lowering the fund balance. In recent years, the DIF has experienced low losses from IDI failures. On average, five IDIs per year failed between 2015 and 2019, at an annual cost to the fund of about \$400 million. Two IDIs have failed thus far in 2020, marking the sixth year in a row with few or no failures.

Future losses to the DIF remain uncertain as the length of the pandemic and the resulting potential economic and banking effects are unclear. The uncertainties include, among others, the length of time necessary for a full economic recovery, how quickly businesses are able to reopen and return to pre-pandemic operations, and consumer behavior during and after the pandemic, which could have longer-term effects on the condition and performance of the banking industry. Thus far, the industry has remained a source of strength for the economy, in part, because banks' stronger capital position has

better positioned them to withstand losses compared to 2008. As of June 30, 2020, capital remained above regulatory minimums and the industry ratios for tier 1 risk-based capital and total risk-based capital exceeded the ratios reported at year-end 2007 by several percentage points.

To anticipate declines in capital that could trigger losses from IDI failures, the FDIC also monitors other measures, such as earnings, asset quality, and supervisory ratings. Thus far, while economic stress related to COVID-19 has impacted IDI earnings and lowered net interest margins, asset quality and supervisory ratings generally remain strong. As of June 30, 2020, 1.08 percent of loan and lease balances were noncurrent, up from a year ago, but below the peak of 5.46 percent in the first quarter of 2010. The total number of institutions on the FDIC's Problem Bank List fell to 52 in the second quarter of 2020, continuing the decline in the number of problem banks that has occurred in every quarter since its peak of 888 institutions in March 2011.⁹ Under the Restoration Plan, the FDIC will monitor these and other measures to project potential losses from past and future IDI failures and their impact on the ability of the reserve ratio to return to 1.35 percent within 8 years of establishing the Plan.

Other Factors

Other factors that affect the reserve ratio include changes in IDI risk profiles, which influence assessment rates; growth in the assessment base; DIF investment income and unrealized gains and losses on investments; and operating expenses. For example, under the current rate schedule adopted pursuant to the FDIC's long-term fund

⁹ "Problem" institutions are institutions with a CAMELS composite rating of "4" or "5" due to financial, operational, or managerial weaknesses that threaten their continued financial viability.

management plan,¹⁰ the weighted average assessment rate for all IDIs is approximately 4.0 basis points for the assessment period ending June 30, 2020.¹¹ In future quarters, this rate may increase or decrease based on the risk profiles of institutions, affecting the DIF balance and, thus, the reserve ratio through assessment income. Under the Restoration Plan, the FDIC will monitor these factors and their impact on the ability of the reserve ratio to return to 1.35 percent within 8 years of establishing the Plan.

Current Schedule of Assessment Rates and Fund Projections

In developing this Restoration Plan, the FDIC projected the DIF balance and associated reserve ratio at the end of 8 years, using the current rate schedule and assuming different rates of insured deposit growth.¹² While subject to considerable uncertainty, it is the FDIC's view that raising assessments based on two quarters of extraordinary insured deposit growth would be premature.

Table 2 depicts the amount of losses that the DIF could absorb and still reach 1.35 percent within 8 years. For example, if insured deposits grow at an annual rate of 2.5 percent over the next 8 years, the DIF could absorb losses of up to \$23.7 billion and still reach the minimum reserve ratio requirement within 8 years. Alternatively, if insured deposits grow at an annual rate of 4.5 percent over the next 8 years, the DIF would need an additional \$1.5 billion for the reserve ratio to reach the 1.35 percent minimum.

¹⁰ See 12 CFR 327.10(b); see also 76 FR 10672, 10718 (Feb. 25, 2011) and 81 FR 32180, 32202 (May 20, 2016).

¹¹ The quarterly weighted average assessment rate was calculated based on FDIC data as of August 24, 2020, and is subject to change due to amendments made through September 28, 2020, to IDIs' quarterly Consolidated Reports of Condition and Income or quarterly Reports of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (as applicable).

¹² For simplicity, the analysis shown in Table 2 assumes that: (1) the assessment base grows 4.5 percent, annually; (2) the average assessment rate remains at 4.0 basis points; (3) interest income on the deposit insurance fund balance is zero; and (4) operating expenses grow at 1 percent per year.

Table 2—Projected Reserve Ratio at the End of 8 Years Assuming Different Rates of Insured Deposit Growth

Annual Insured Deposit Growth Rate [percent]	Industry Insured Deposits [billions of dollars]	DIF Reserve Ratio [percent]	DIF Balance needed to reach 1.35 percent reserve ratio [billions of dollars]	Amount available to absorb losses and reach 1.35 percent reserve ratio [billions of dollars]
2.5	10,835	1.56	145.7	23.7
3.0	11,279	1.50	151.7	17.7
3.5	11,739	1.44	157.9	11.5
4.0	12,215	1.39	164.3	5.1
4.5	12,708	1.33	170.9	(1.5)

It is reasonable that annual insured deposit growth could average less than 4.5 percent over the next 8 years for two main reasons. First, annualized growth has been less than 4.5 percent or negative during most (57 percent) quarters since quarterly reporting was adopted in 1991. Most importantly, as previously discussed, deposit growth could face downward pressure in the near-term based on economic conditions, as the consumption and investment patterns of individuals and households exhibit less precautionary behavior and as surge deposits are disbursed or leave the banking system, with growth rates normalizing over the next 8 years.

For example, if insured deposits grow at an annual rate of approximately 3.3 percent over the next 8 years, reflecting the flow of surge deposits out of the banking system and a return to normal consumer behavior, then the long-term growth rate (including extraordinary growth during the first two quarters of 2020) would equal the long-term average rate of 4.5 percent that the fund has experienced since the 1990s. Under this scenario, the table above shows that losses would have to exceed \$11.5 billion to prevent the reserve ratio from reaching 1.35 percent in 8 years.

Due to the uncertainties discussed elsewhere, losses from bank failures remain difficult to project. However, the banking industry is well capitalized, the problem bank list remains low, and the banking industry has appeared resilient to the early stages of the economic effects of the pandemic. As the effect of the pandemic on the banking industry becomes more apparent, the FDIC will reassess its analysis of insured deposit growth, potential losses, and other factors that affect the reserve ratio.

Semiannual Updates of Income and Loss Projections

It is the FDIC's view that frequent updates are necessary because loss and reserve ratio projections made so far into the future are subject to considerable uncertainty. Losses could differ from projected amounts if economic conditions worsen or financial stresses facing IDIs prove more or less severe. For example, DIF loss projections may increase if the quality of IDI assets quickly deteriorates or capital markets become severely constrained, and income could be affected by the factors described previously. Insured deposit growth could be higher or lower based on future economic conditions and the response of fiscal and monetary authorities and depositors.

Future updates to the Board may result in changes in assumptions that result in different assessment revenue needs. Consequently, in order to fulfill the statutory requirement to return the fund reserve ratio to 1.35 percent, the FDIC may need to adopt higher assessment rates than those included in the current assessment rate schedule. Under assessment regulations, the Board has the authority to adjust assessment rates for all IDIs by up to two basis points, without notice and comment, if conditions warrant

such an increase.¹³ Any increase greater than two basis points would require notice and comment. Given the considerable uncertainty of long-range projections and because the statutory deadline is 8 years away, the Restoration Plan maintains the current assessment rate schedule for all IDIs.

Federal Deposit Insurance Corporation.

By order of the Board of Directors.

Dated at Washington, DC, on September 15, 2020.

James P. Sheesley,

Assistant Executive Secretary.

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¹³ The Board may increase or decrease the total base assessment rate schedule up to a maximum increase of 2 basis points or a fraction thereof or a maximum decrease of 2 basis points or a fraction thereof (after aggregating increases and decreases), as the Board deems necessary. *See* 12 CFR 327.10(f).